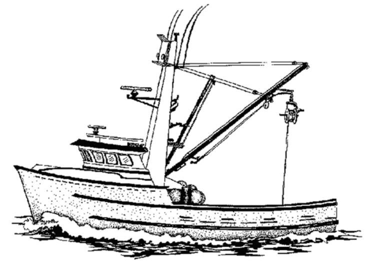
Tips for

DIRECT MARKETERS



Working with a Broker or Trader

A seafood broker or trader can be an important partner for the direct market fisherman. Brokers and traders are experienced marketers with access to markets others may not have. They can also source additional product from other producers to create larger volumes and product assortments desired by markets. This allows them to move larger volumes and less-desirable species.

Understanding how a broker or trader operates will help you analyze whether employing one is an appropriate addition to your direct marketing business. This publication answers several questions about the seafood brokering and trading business, including what they do, why you might want to use one, how to forge a mutually beneficial relationship, and how you can protect yourself when expanding your business in this way.

There are important differences between brokers and traders. We begin with a discussion of seafood brokers, and then explain the difference between brokers and traders.

What does a broker do?

A broker sells your product for you to a buyer further down the distribution chain, usually a retailer or food service outlet. When you enlist the services of a broker, you outsource your marketing function, including sales and promotion responsibilities. While the seafood broker finds markets, arranges logistics, and secures payment, you, the producer, remain the owner of the product until it reaches the buyer. Broker services range from moving large volumes of product to grocers or secondary processors, to representing small amounts of product to niche markets. For this service, a broker receives a commission on the sale value. (Please see illustration on page 2, The Seafood Marketing Chain.)

How does a broker determine their "cut"?

A broker's commission depends on the type of product, the volume, and the market location. For high volume commodity products, brokers expect 3 to 5% of the sales price. For instance, a longtime broker of canned pink salmon selling to grocery stores in the southeastern United States might receive a 3% commission on the sales price from a large Alaska cannery. On the other hand, handling lower volumes and/or selling to foreign markets can push the commission higher. Brokers selling small quantities of fresh salmon into Seattle, or geoducks into Hong Kong, might earn 10% commission on the final sale, for example.

Does a broker sell to consumers?

Brokers do not sell directly to consumers. Brokers conduct business-to-business sales. A broker sells to other businesses such as distributors, retail operations, and importers.

Why might I want to work with a broker?

- Leaving the marketing and selling to someone else allows you to focus on improving production.
- Brokers are knowledgeable about markets that most of us have little expertise in.

by
Sunny Rice
(sunny.rice@alaska.edu)

Quentin Fong
(qfong@sfos.uaf.edu)

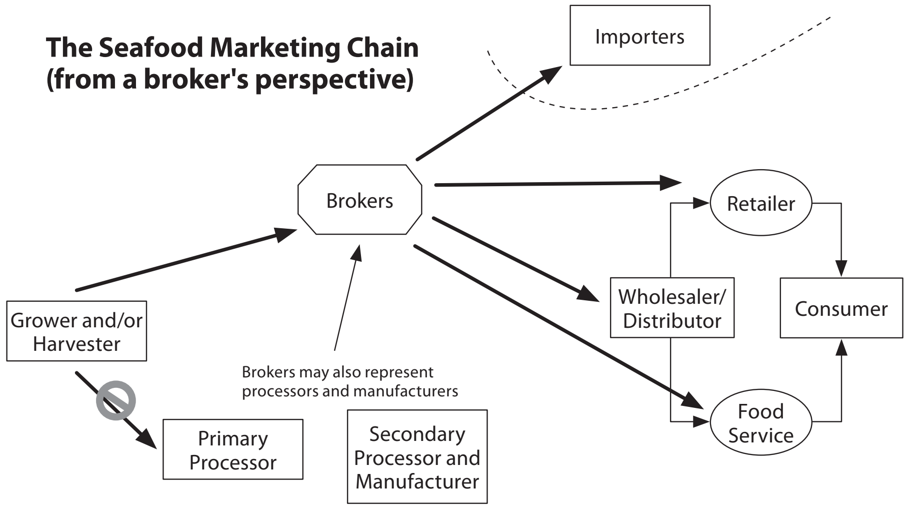
Glenn Haight
(glenn.haight@alaska.edu)

SEAgram

Sea Grant Alaska

ALASKA SEA GRANT
MARINE ADVISORY PROGRAM

ASG-49 2010
doi:10.4027/wwbt.2010



- Brokers develop expertise in market research, logistics, pricing, negotiation (i.e., salesmanship), and use of promotion tools (e.g., advertising, branding). These attributes are even more important when working in a foreign market.
- If meeting new people and making sales are not your strong points, a broker is a good solution.

How do I find a good broker?

Look in *Who's Who in the Fish Industry* by Urner Barry Publications. Also check individual brokers' credit histories through credit checking services such as Dun and Bradstreet (www.dnb.com) and Equifax (www.equifax.com). For more specialized services, companies such as Seafax (www.seafax.com) specialize in credit information for the food industry.

- Many brokers set up booths at seafood shows. When you talk to potential brokers, ask them for customer references. Then call a few of those references.
- Other direct marketers in your area may be willing to give referrals.
- If at all possible, meet with the broker face-to-face to give you a better feel for who they are and how their operation works. Developing this personal relationship early on will help you establish the right kind of sales reputation for your product.
- Keep in mind that it might be worth paying a slightly higher commission to a good broker who you can trust, you feel comfortable with, and can bring you a higher price.

What should I look for in a good broker?

In general, all the interactions between the producer and broker, and the broker and his markets, should be transparent.

A good broker will introduce the producer to the customers, make clear the final price negotiated, provide feedback on the quality of the product, and handle payment transactions quickly and efficiently. Your broker should be interested in building a competitive advantage for your product. Establishing long-term producer-buyer relationships that improve sales is in a good broker's best interest.

How can I protect myself from loss when dealing with a broker?

Most producers are justifiably cautious when first entering into a relationship with a broker. Although broker-client relationships depend on trust, you may want to take extra steps to protect yourself, particularly early on in the relationship. Of course, many of these protections also come with a cost. Aside from the ideas mentioned above, you may also:

- Consider using a freight expediter, especially if your product will need to change planes or airlines en route. Airlines will not take responsibility for the quality of your product during transport.
- Be particularly cautious with people who make unsolicited calls to you about brokering or purchasing your fish.
- Try to have access to more than one source of information about markets and prices, but make sure you are comparing apples to apples.
- Consider using a broker in your own community, or at the first transfer point for your product (i.e., Anchorage or Seattle). This will make communication easier, and decrease the length of time you are responsible for the product, which decreases your risk.
- Try to have backup plans or markets for your product in case of transportation issues, particularly if you are shipping from a remote location.

- Get legal advice from someone with experience in the fish business when signing contracts.
- Consider requiring part or all of your payment up front on early shipments.
- If you know someone at your product's destination, ask them for a second opinion if there are temperature, quality, or other issues.
- Be prepared and organized with your paperwork. Know the weights and numbers on each box, have copies of invoices, airbills, etc. This will show that you are not easily duped and provides evidence if there are disputes.

What will a broker expect from me?

Brokers need a consistent supply of quality product to do their job. Their buyers want the same thing. You will need to communicate with your broker regularly about product amounts and availability, and to arrange shipments. Good brokers look at their dealings with producers as relationships, which include trust and commitment. Going around a broker's back to sell product to a buyer is a sure way to sour the relationship. While it is important that you are confident the broker is providing strong representation, you need to refrain from undermining their decisions, micromanaging relationships, or second-guessing every action. Brokers are paid for their marketing expertise—let them use it!

What are disadvantages to dealing with a broker?

Brokers are middlemen. This automatically adds cost. In addition to increased costs, you become "locked in" to the broker. For example, if a volume of product is committed to a broker specializing in food service, you cannot redirect that volume to take advantage of price increases in the retail market without souring the broker-supplier relationship.

Differing values may impact the producer-broker relationship. No matter how devoted a broker is to the product, he or she may not represent it exactly the way you would like. The broker may market the product based on price alone, while you are focused on quality, for example.

Finally, your product is likely one of many represented by the broker. The broker may focus on other, more profitable products at the expense of yours.

What is unique about brokers selling to international markets?

The relationship is similar to one that sells into a national market—it needs to be transparent. The main difference is that an international broker will help guide you through the maze of import/export regulations. This includes things like obtaining European Union HACCP[1] numbers, registering with the appropriate authorities, or preparing health certificates. With these added burdens and increased knowledge, international brokers will charge a higher commission.

Should I work with more than one broker at a time?

Only if the brokers are not competing with each other and are aware of what you are doing. Using different brokers is acceptable for different species, product forms, and/or sales regions. A small Alaska producer might want to market frozen headed and gutted salmon with one broker, while also selling boneless, fresh fillets through another, for example. Regardless of the specific circumstances, it is important to have a clear delineation of product, volume, and/or territory. Open communication and transparency between the producer and broker is essential.

What is the difference between a broker and a trader?

A trader performs many of the same functions as a broker, except the trader actually buys the product from the producer, rather than representing the product and facilitating sales.

- **Risk:** By buying your product upfront, traders take on the risk of the product losing value from changing market values, spoilage, or other factors. They also cover the span of time between when the product is delivered to the customer and when payment is received from that customer. A large amount of capital may be required to cover this time span. In exchange for absorbing these risks, a trader may not pay as much for the product. Then again, the trader does not collect a commission.

  If you use a broker, you will bear these risks. In deciding whether to use a broker or trader, you will want to consider whether the risks appear low enough and the product value high enough to sustain the risk of direct ownership. The broker or trader will be considering the same thing.
- **Payment method**: Although traders make payment directly to you, they generally do not pay cash upfront for the product. Instead, they give letters of credit from a bank. The letters of credit are payable when the trader gets delivery of the product. If the seafood buyer is in Seattle, fresh product delivered quickly may receive payment in a day or two. However, headed and gutted frozen red salmon to a seafood trader in Germany, for example, might not receive payment for a few weeks.

---

[1]HACCP = Hazard Analysis and Critical Control Point.

- **Marketing information:** Unlike a broker, a seafood trader is not obliged to give market information (although some might if you have developed a long-term relationship). The trader will likely only negotiate a price and may give feedback on the product quality to justify the quoted price.

It is common for an individual operating as a broker to move some product as a trader—and vice versa.

What terms do I need to know when dealing with a broker or trader?

Bill of lading: an official document prepared by the shipping or transportation company accepting the good for shipment and providing a contract to carry the good to the designated destination. A bill of lading may contain information such as the item type, quantity, value, date, port, seller name, vessel details, etc. The seller can claim payment and the buyer can take delivery of the goods based on this contract.

C&F: (cost and freight) signifies that a price quoted does not include insurance, but does include all expenses incurred up to the destination named, e.g., "C&F Seattle"

CIF: (cost, insurance, freight) same as above, but the cost of insurance is also included.

Consumer: the final user of the product, e.g., families, restaurant customers.

FOB: (freight on board or free on board) usually indicates who pays freight, insurance, and loading costs. For example, a quoted fee "FOB Seattle" would mean you pay for insurance and shipping of the product to Seattle. The broker's percentage would then be taken off the final price received for the product after it is sold.

Food service provider: a business that serves prepared food to consumers, including restaurants, cafeterias, universities, and government installations.

Freight forwarder/expediter: a person or a firm that handles your shipment of goods efficiently. For example, once your container is loaded and closed up, a forwarder will pick it up, schedule transportation, clear customs, and ensure delivery at a certain date and time.

Letter of credit: a written commitment from a buyer's bank or other financial institution to a seller's bank guaranteeing payment when certain conditions, or terms, are met.

Retailer: an entity that sells product directly to the consumer for home consumption, e.g., grocery store, specialty food shop.

Wholesaler: an entity that buys larger quantities of product and breaks them down into smaller orders to resell to individual buyers. Wholesalers may also reprocess or repackage product. Wholesalers can be regional or national; usually have their own means of distributing products, i.e., trucks, warehouses, or repackaging facilities; and often carry a wide range of products.

Sunny Rice
Marine Advisory Agent
Alaska Sea Grant Marine Advisory Program
University of Alaska Fairbanks
P.O. Box 1329
Petersburg, AK 99883
(907) 772-3381
sunny.rice@alaska.edu

Quentin Fong
Seafood Marketing Specialist
Alaska Sea Grant Marine Advisory Program
University of Alaska Fairbanks
118 Trident Way
Kodiak, AK 99615
(907) 486-1516
qfong@sfos.uaf.edu

Glenn Haight
Fisheries Business Specialist
Alaska Sea Grant Marine Advisory Program
University of Alaska Fairbanks
1108 F Street, Suite 215
Juneau, AK 99801
(907) 796-6046
glenn.haight@alaska.edu

References

Horst, J., and K. Roberts. 1987. So you want to be a seafood dealer. Louisiana Sea Grant, Baton Rouge, LSU-G-87-002.

Johnson, T., ed. 2007. Fishermen's direct marketing manual, 4th edn. Alaska Sea Grant Marine Advisory Program, University of Alaska Fairbanks. 96 pp.

Knapp, G., and T. Reeve. 2008. A village fish processing plant, yes or no? University of Alaska Anchorage, Institute of Social and Economic Research.

Acknowledgment

Thank you to the following people for reviewing this publication: Terry Reeve and Terry Johnson, Alaska Sea Grant Marine Advisory Program. Stuart Currie, Kuskokwim Seafoods. Dan Stockel, Alaska Hook and Line Seafoods, Inc. Cynthia Wallesz, Lofoten Fish Company

For information on undergraduate and graduate opportunities in marine biology, fisheries, oceanography, and other marine-related fields at the University of Alaska Fairbanks School of Fisheries and Ocean Sciences, visit http://www.sfos.uaf.edu/.

The Alaska Sea Grant College Program is a marine research, education, and extension service headquartered at the University of Alaska Fairbanks School of Fisheries and Ocean Sciences. Alaska Sea Grant is supported by the National Oceanic and Atmospheric Administration Office of Sea Grant, Department of Commerce, under grant no. NA10OAR4170097, (projects A/161-02 and A/151-01), and by the University of Alaska with state funds.

UAF University of Alaska Fairbanks
School of Fisheries and Ocean Sciences
America's Arctic University

Fishbiz
Alaska Fisheries Business Assistance

Marine Advisory Program, UAF
1007 West 3rd Ave., Suite 100
Anchorage, AK 99501
(907) 274-9691
map@sfos.uaf.edu
marineadvisory.org

Alaska Sea Grant, UAF
PO Box 755040
Fairbanks, AK 99775
(888) 789-0090
fypubs@uaf.edu
alaskaseagrant.org